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RESERVE BANK OF INDIA
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Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026

Please refer to Annex I of the FMRD Master Direction No. 1/2016-17 - Master Direction - Risk Management and Inter-Bank Dealings and paragraph 199 (Section D.4) of the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025, which specify the methodology for computation of Net Open Position and calculation of capital charge on foreign exchange risk. Upon a review and to ensure greater alignment with international standards and consistent implementation across commercial banks, there is a felt need to amend these instructions.

2. Accordingly, in exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 and all other provisions / laws enabling the Reserve Bank of India (RBI) to issue instructions in this regard, the Reserve Bank being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Amendment Directions hereinafter specified.

3. (i) These instructions shall be called the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026.

(ii) These Amendment Directions shall come into effect from April 1, 2027.

4. The Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025 are amended as provided below:

(i) In the extant Directions, the paragraph 199 (Section D.4) is hereby substituted by the following, namely: -

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‘D.4 Foreign Exchange Risk

199. A bank shall compute capital charge for foreign exchange risk as per the following method.

Scope of Application

(1) A bank shall compute net open position and maintain capital charge for foreign exchange risk at both group / consolidated level and solo / standalone level. For this purpose, a bank may refer to paragraph 8 of these Directions.

(2) A bank shall meet the capital requirements for foreign exchange risk on a continuous basis, i.e., at the close of each business day.

Exclusions from net open position

(3) A bank shall not apply foreign exchange risk capital requirement to any position that is deducted from the bank’s regulatory capital, including a position that is hedging such a position.

(4) Holdings of capital instruments that are deducted from a bank’s capital or risk weighted at 1250 per cent are not required to be included in the forex risk capital requirements. This includes:

(i) holdings of the bank’s own eligible regulatory capital instruments; and

(ii) holdings of other banks’ and other financial entities’ eligible regulatory capital instruments, as well as intangible assets, where such assets are deducted from capital.

(5) A bank shall not apply forex risk capital requirements to securities which are (i) already matured and remain unpaid; or (ii) have been classified as a non-performing asset / investment. Such securities shall attract capital only for credit risk.

Exclusion of certain structural foreign exchange positions from net open position

(6) A bank shall have the option to exclude certain structural foreign currency investments from the calculation of net open position.

(7) The forex risk positions eligible for exclusion under sub-paragraph (6) above shall be structural (i.e., non-dealing) in nature such as positions arising from:

(i) investments in affiliated but not consolidated entities denominated in foreign currencies; or

(ii) investments in consolidated subsidiaries or branches denominated in foreign currencies.

(8) A bank must comply with each of the following conditions while excluding currency risk positions under sub-paragraph (6) above:

(i) The risk position shall be taken or maintained for the purpose of hedging partially or fully against the potential that changes in exchange rates could have an adverse effect on its capital ratio.

(ii) The exclusion is limited to the amount that neutralises the sensitivity of the capital ratio to movements in exchange rates.

(iii) The exclusion from the calculation is made for at least six months.

(iv) The establishment of a structural foreign exchange position and any changes in its position shall follow the bank's risk management policy for structural foreign exchange positions.

(v) The exclusion from the calculation shall be applied consistently, with the exclusionary treatment of the hedge remaining in place for the life of the assets or other items.

(vi) The bank shall document and have available for supervisory review the positions and amounts to be excluded from market risk capital requirements.

Explanation: A matched currency risk position will protect a bank against loss from movements in exchange rates, but will not necessarily protect its capital adequacy ratio. If a bank has its capital denominated in its domestic currency and has a portfolio of foreign currency assets and liabilities that is completely matched, its capital / asset ratio will fall if the domestic currency depreciates. By running a short risk position in the domestic currency, the bank can protect its capital adequacy ratio, although it would result in a loss in the event of appreciation of the domestic currency.

An illustration of the exclusion of structural foreign currency investments from net open position is provided in sub-paragraph (9) below.

(9) *Illustration of exclusion of structural foreign currency investments from net open position:*

(i) The paragraphs below provide an example of the exclusion of structural foreign currency investments from net open position. The example uses a simplified scenario and is for illustrative purposes only.

(ii) A bank may adopt an alternative methodology, with reasonable assumptions, to determine its maximum net open position to be excluded. The methodology shall be documented in the bank's risk management policy for structural foreign exchange positions. The policy shall be pre-approved by the DoS, RBI.

(iii) Assume a bank with the below balance sheet consisting of domestic currency (DC) assets / liabilities and foreign currency (FC) assets / liabilities.

Case 1: The forex assets and liabilities are perfectly matched.

Forex Assets in FC	300	Forex Liabilities in FC	300
Exchange Rate	1		
Forex Assets in DC (a)[1]	300	Forex Liabilities in DC (c)	300
Domestic Assets (b)	700	Domestic Liabilities (d)	540
		Capital (e = a + b – c - d)	160
Total Assets (f = a + b)	1000		
Forex exposure (g = a - c)	0		
Total RWA (h=f*100%)	1000		
Capital Ratio (i = e / h)	**16.00%**		

Assume that the foreign currency appreciates, with exchange rate increasing from 1 to 1.2. Although the forex assets and liabilities increase by the same percentage (20 per cent) and hence continue to be perfectly

[1] Calculated as Forex Assets in FC * Exchange Rate = 300 * 1 = 300

matched, the bank's capital ratio will decline since forex RWAs increase by 20 per cent, while capital amount remains unchanged.

Forex Assets in FC	300	Forex Liabilities in FC	300
Exchange Rate	1.2		
Forex Assets in DC (a)	360	Forex Liabilities in DC (c)	360
Domestic Assets (b)	700	Domestic Liabilities (d)	540
		Capital (e = a + b – c - d)	160
Total Assets (f = a + b)	1060		
Forex exposure (g = a - c)	0		
Total RWA (h = f * 100%)	1060		
Capital Ratio (i = e / h)	**15.09%**		

<u>Case 2:</u> The bank takes a structural long position in the foreign currency (i.e., short position in the domestic currency) to protect its capital ratio from possible appreciation of the foreign currency. This position will, however, affect the bank's capital ratio adversely if the foreign currency depreciates.

Forex Assets in FC	300	Forex Liabilities in FC	200
Exchange Rate	1		
Forex Assets in DC (a)	300	Forex Liabilities in DC (c)	200
Domestic Assets (b)	700	Domestic Liabilities (d)	640
		Capital (e = a + b – c - d)	160
Total Assets (f = a + b)	1000		
Forex exposure (g = a - c)	100		
Total RWA (h = f * 100%)	1000		
Capital Ratio (i = e / h)	**16.00%**		

Assume that the foreign currency appreciates, with exchange rate increasing from 1 to 1.2. Forex assets and liabilities increase 20 per cent. RWAs increase from 1000 to 1060 whereas the capital amount increases from 160 to 180. Overall, the bank's capital ratio improves from 16 per cent to 16.98 per cent.

Forex Assets in FC	300	Forex Liabilities in FC	200

Exchange Rate	1.2		
Forex Assets in DC (a)	360	Forex Liabilities in DC (c)	240
Domestic Assets (b)	700	Domestic Liabilities (d)	640
		Capital (e = a + b - c - d)	180
Total Assets (f = a + b)	1060		
Forex exposure (g = a - c)	120		
Total RWA (h = f * 100%)	1060		
Capital Ratio (i = e / h)	**16.98%**		

(iv) To determine the maximum amount of the risk position that can be excluded from net open position, the amount of additional capital required to maintain the capital ratio unchanged, for a unit change (1 per cent) in the exchange rate is to be calculated.

Step 1

Calculate the new RWA position with the revised exchange rate. For the illustration provided in Case 2 above, assume the foreign exchange rate increases from 1 to 1.01.

Forex Assets in DC = 300*1.01 = 303

Domestic Assets in DC = 700

Total Assets = 303 + 700 = 1003

Total RWAs = 1003 * 100% = 1003

Step 2

Now, calculate the new capital amount required and the increase in capital amount required in order to keep the capital ratio unchanged.

Initial capital ratio = 16.00%

New capital amount required = Initial capital ratio * New Total RWAs = 16% * 1003 = 160.48

Increase in capital amount required = New capital amount required – Initial capital amount = 160.48 – 160.00 = 0.48

Step 3

Amount of structural foreign exchange position that can be excluded from net open position = (Increase in capital amount required) / 1% = 0.48 / 0.01 = 48

Initial NOP from the structural foreign exchange position = Foreign currency assets - Foreign currency liabilities = 300 – 200 = 100

Hence, amount of structural foreign exchange position to be included in net open position = Initial net open position - Amount of structural foreign exchange position that can be excluded from net open position = 100 – 48 = 52

Alternate method:

An alternate method which provides the same result for the maximum amount of structural foreign exchange position that can be excluded from net open position is to multiply the capital ratio with the forex RWAs.

Maximum amount of structural foreign exchange position that can be excluded from net open position = (Capital / Total RWAs) * Forex RWAs = (160 / 1000) * 300 = 48

Note:

(a) The above example uses certain assumptions and simplifications (such as Risk weight = 100 per cent and equal for forex assets and domestic assets, operational RWAs not considered, etc.).

(b) The above example considers the maximum amount of structural foreign exchange position for a single foreign currency. In practice, a bank would have to separately calculate the maximum amount of structural foreign exchange position for each foreign currency for which it seeks an exclusion from net open position.

(c) The illustration only provides the maximum amount of structural foreign exchange position that can be excluded from Net Open Position. In order to be eligible for such exclusion, a bank shall meet all the conditions mentioned in sub-paragraphs (6) to (8) above.

Calculation of Net Open Position

(10) For measuring the capital requirement for foreign exchange risk, a bank shall include all positions, within the 'Scope of Application' above, in foreign currencies, including gold, regardless of whether these are in the trading book or banking book.

(11) The Net Open Position shall be calculated as under:

(i) Measure the exposure in a single currency position as set out in sub-paragraphs (12) to (18) below.

(ii) Measure the risks inherent in a bank's mix of long and short positions in different currencies as set out in sub-paragraphs (19) to (21) below.

Measuring the exposure in a single currency

(12) The bank's net open position in each currency shall be calculated, considering both onshore and offshore positions, by summing:

(i) the net spot position (i.e., all asset items less all liability items, including accrued interest, denominated in the currency in question);

(ii) the net forward position (i.e., all amounts to be received less all amounts to be paid, as indicated in sub-paragraph (13) below);

(iii) guarantees (and similar instruments) that are certain to be called and are likely to be irrecoverable;

(iv) net future income / expenses not yet accrued / due but where the amounts are certain and have been fully hedged by the bank, at its discretion;

(v) any other item representing a profit or loss in foreign currencies (depending on particular accounting conventions in different countries); and

(vi) the net delta-based equivalent of the total book of foreign currency options.

Note: Options are also subject to a separately calculated capital requirement for gamma and vega risks as described in paragraph 211(1). Alternatively, options and their associated underlying are subject to one of the other methods described in paragraph 211.

(13) The net forward position includes:

(i) tom and spot transactions which are not yet settled;

(ii) forward and futures transactions; and

(iii) principal on currency swaps and any other derivative transactions not included in the spot position.

(14) Positions in composite currencies need to be separately maintained but, for measuring a bank's net open position, may be either treated as a currency in their own right or split into their component parts on a consistent basis. Positions in gold (spot plus forward) shall be first expressed in terms of the standard unit of measurement (tonnes / kilos / ounces, etc.), with the net position being valued at current spot rates.

Explanation: Where gold is part of a forward contract (quantity of gold to be received or to be delivered), any interest rate or foreign currency exposure from the other leg of the contract shall be reported as set out in paragraphs 186 to 194 and paragraph 199(12).

(15) Interest, other income and expenses shall be treated as follows: Interest accrued (i.e., earned but not yet received) and accrued expenses shall be included as a spot position. Unearned but expected future interest and anticipated expenses may be excluded unless the amounts are certain and the bank has taken the opportunity to hedge them. If a bank includes future income / expenses it shall do so on a consistent basis, and it would not be permitted to select only those expected future flows which reduces its position.

(16) Measurement of derivative positions: A bank shall use the net present values of derivative positions, including forward exchange contracts, discounted using current interest rates and valued at current spot rates. A bank may select the yield curve for the purpose of present value adjustments, provided the same is selected in a manner which is representative of the funding cost. A bank shall have an internal policy approved by its Asset Liability Committee (ALCO) regarding the yield curve / (s) to be used and apply it on a consistent basis.

Overseas operations in net open position

(17) Treatment of capital invested in overseas operations: Subject to the 'Scope of Application' above, a bank shall include all capital investments in overseas

operations under the net spot position for calculation of net open position. For this purpose, overseas operations of a bank shall include overseas branches, IFSC Banking Units and Offshore Banking Units in Special Economic Zones, as well as overseas subsidiaries, associates and joint ventures.

(18) Treatment of accumulated surplus / unremitted surplus of overseas operations: Subject to the 'Scope of Application' above, a bank shall include all accumulated surplus / unremitted surplus of overseas operations under the net spot position for calculation of net open position.

Measuring the foreign exchange risk in a portfolio of foreign currency positions and gold

(19) For measuring the foreign exchange risk in a portfolio of foreign currency positions and gold, a bank shall use a shorthand method which treats all currencies equally.

(20) Under the shorthand method, the nominal amount (or net present value) of the net position in each foreign currency and in gold is converted at spot rates into the reporting currency. The overall net open position is measured by aggregating:

(i) the sum of the net short positions or the sum of the net long positions, whichever is greater; plus

(ii) the net position (short or long) in gold, regardless of sign.

Explanation:

(a)The spot rates to be used for this purpose shall be determined based on the extant FEDAI guidelines.

(b)Where the bank is assessing its foreign exchange risk on a consolidated basis, it may be technically impractical, in the case of some marginal operations, to include the currency positions of a foreign branch or subsidiary of the bank. In such cases, the internal limit in each currency may be used as a proxy for the positions. Provided there is adequate ex post monitoring of actual positions against such limits, the limits shall be added, without regard to sign, to the net open position in each currency.

(21) Transactions undertaken by a bank till the end of business day shall be included

for calculation of Net Open Position. The transactions undertaken after the end of business day may be taken into the positions for the next day. For this purpose, a bank may define its own end of business day timings, but the same shall be determined as per a duly approved internal policy and followed on a consistent basis.

(22) The capital requirement for foreign exchange positions, including gold, shall be 9 per cent of the overall net open position computed using the shorthand method. This capital requirement is in addition to the capital requirement for credit risk, interest rate risk or any other risks on the on-balance sheet and off-balance sheet items pertaining to foreign exchange and gold transactions.

Illustration: See example in Table below.

Table: Example of the shorthand measure of foreign exchange risk

	JPY	EUR	GBP	CAD	USD	Gold
Net position per currency	+50	+100	+150	-20	-180	-35
Net open position	+300			-200		35

The capital requirement will be 9 per cent of the overall net open position. Thus, the capital requirement would be 9 per cent of the higher of either the net long currency positions or the net short currency positions (i.e., 300) and of the net position in gold (35) = 335 x 9 per cent = 30.15 (scalars would be applied as prescribed).'

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